

Friday  
August 31, 2007

Ms. Mary Levine, Acting Director of Legal Affairs  
Michigan State Housing Development Authority  
735 E. Michigan Ave.  
Lansing MI 48909

Re MSHDA Draft Qualified Allocation Plan  
Rohde Construction Company Comments

Dear Ms. Levine:

I am well aware that the draft QAP which would change MSHDA's established procedures developing new LIHTC housing has generated substantial controversy and comments from established for-profit and non-profit developers. While I believe the concerns from them are reasonable and justified, I am not writing this letter with the perspective of a general contractor.

I personally, and as founder/president of Rohde Construction almost 15 years ago, have overseen the construction hundreds of MSHDA funded housing projects dating back to the mid-1970s. I believe I am accurate in stating that there is no one actively involved in the Michigan construction industry who has as much experience and background with MSHDA housing as myself. I, and/or my company, have constructed projects throughout the upper and lower peninsula under a variety of housing programs in the last four decades. This experience includes constructing MSHDA LIHTC since 1988.

In the new draft QAP, there are two issues which have particularly drawn my attention. One of issues is far more serious than the other and I would like to address first. The draft QAP would mandate Federal prevailing wages and health benefits to be paid to all construction workers on LIHTC projects. **This mandate, if not eliminated in the final QAP, would prevent the construction of LIHTC projects anywhere in the state except the tri-county area!** This may sound alarmist but it is unfortunately a fact. Observations on this proposed QAP change are;

- Michigan housing construction has transformed, since the 1970s, from a combination of union and right-to-work construction workforce, to the current 90+% right-to-work labor force. Indeed, even in the heavily protected Tri-County and Washtenaw county areas non-union construction is starting to dominate in the construction of housing. Prevailing wages are a thinly-veiled mechanism to help union labor to be more competitive in the market place. MSHDA not only has no business in promoting union labor, but as a lender, MSHDA harms its own position by promoting higher cost construction which puts their loan at more risk.
- In the vast majority of the projects in which I have been involved, the developments had a very narrow range of feasibility. **If the prevailing wages were instituted, construction cost would be 10-20% more expensive. The projects feasibility would evaporate and no affordable no affordable housing would be constructed for the Michigan needy!** It is obvious for LIHTC projects that rents are dictated by program mandates. In addition, marketplace rents cannot be increased because of tight competition. Market Surveys would not show increased rent levels could be supported. As such, if the extra costs can't be passed on, the project doesn't get built.
- If MSHDA requires the prevailing wages to be paid on LIHTC projects, it ignores Michigan history and past failures when the prevailing wage program was previously adopted and then rescinded in the past. An excerpt from the Mackinac Center for Policy review for this topic, entitled The Wages of "Prevailing Wages" Less Money for Education [Michael LaFaive 8/2000] stated;

"Today both empirical and anecdotal evidence exists to show that Michigan's prevailing wage law unnecessarily boosts government spending, costs jobs, and drains resources from schools. In 1994, a federal district court judge effectively suspended the state's prevailing wage law. It was reinstated in 1997, but for nearly three years, state and local governments were free to contract for construction unencumbered by the old statute. As a result, we may now compare pre- and post-prevailing wage data.

As outlined by a 1999 Mackinac Center for Public Policy study, *Michigan's Prevailing Wage Law and its Effects on Government Spending and Construction Employment*, during the 30-month period when the law was inoperative:

- More than 11,000 jobs were added to Michigan's payroll as a direct result of the law's invalidation;
- There were 116.7 construction jobs per 1,000 total new jobs (an increase of almost 48 percent); and
- A disproportionate number (i.e., more) of the new jobs created during this period went to blacks and other minorities. "

While this article was pointed towards Michigan school construction, it is no less pertinent to housing. Ultimately, the prevailing wage requirement was done away with by MSHDA, for the benefit of all. With Michigan in a much more precarious position today than other surrounding states, What possible benefit, other than a political payback to unions for donations to Gov. Granholm's re-election campaign, could possibly prompt MSHDA to return to failed policies of the past?

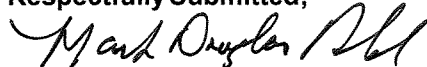
- MSHDA has no mechanism or manpower to oversee the re-introduction of prevailing wages. This was a massive program of wage reporting by companies, wage interviews by MSHDA field employees, and MSHDA office staff reviews of submitted data. It is no secret that MSHDA is understaffed currently, and is not likely to increase staff to oversee a new counterproductive program unrelated to MSHDA's stated mandate to produce affordable housing.

A second issues I would like to address, although many others have also done so, is the artificial set-asides of tax credits for certain cities. At this time, the draft QAP proposes special set-asides for Detroit other cities [My understanding is the other cities are Hamtramck and Highland Park]. In the 1970's through the 1990's, MSHDA was involved in some unsavory business of favoring certain communities over others with its programs. I am no neophyte in understanding the real world. Political paybacks are part of any agency which oversees substantial expenditures of funds. Nonetheless, times had changed at MSHDA this decade, and much has been a better. **The current point program of analyzing applications and conducting a lottery for applications which meet benchmark points totals has allowed MSHDA to exhibit a fair and transparent method for creating affordable housing in the state.** Going backwards to the old policy of favoritism for certain cities creates acrimony which will harm MSHDA's reputation and foster a political backroom atmosphere which is wrong for all involved.

Mary, I would also like to point out that I and Rohde Construction would likely benefit from the new draft QAP in the short term. Rohde is involved with some projects which would benefit from the set-asides, and the projects would still possibly be feasible even with the prevailing wages. Because of this, if my suggestions were adopted by MSHDA, Rohde Construction might actually be harmed in the short term. However, my passionate comments are made because I have worked with MSHDA for over 30 years and want it and its mission to survive, flourish, and produce housing needed for a large sector of Michigan's populations. **If this draft QAP is passed, with prevailing wages, set-asides, and many other divisive new changes; it will lead to dismantling of the MSHDA mission within a decade, if not before the end of this decade!!** The changes are that major.

I would appreciate your passing this letter along to others responsible for the final QAP, and to have this letter posted on your website as an offset to some others who have applauded the draft QAP without understanding the actual program implications.

Respectfully Submitted;



Mark Douglas Rohde PE  
President  
Rohde Construction Company